The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 3, 2017

As of 03/03/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	21,005.71	183.95	0.88	2.30	6.29	23.97
S&P 500	2,383.12	15.78	0.67	1.96	6.40	19.50
NASDAQ 100	5,373.48	30.16	0.56	1.15	10.48	24.22
S&P MidCap 400	1,739.50	2.82	0.16	1.64	4.75	25.16
Russell 2000	1,394.13	-0.40	-0.03	1.41	2.71	29.54

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.31	Euro/Dollar	1.06	0.49
5-Year	2.01	Dollar/Yen	113.99	1.60
10-Year	2.48	Sterling/Dollar	1.23	-1.42
30-Year	3.07	Dollar/Cad	1.34	2.17

Source: Thomson Reuters, Bloomberg

What Caught Our Eye This Week

Snap Inc. is the first tech IPO of the year and the first social networking company since Twitter (11/7/13) to go public. Launched in 2011, the company has matured and some think it is a viable competitor to Facebook and Twitter. Snap has a smaller user base than either Facebook or Twitter, has posted a net loss for the last few years, and has warned they may never be able to achieve or maintain profitability. For those who received IPO shares at $17, the first day's closing price of $24.48 represented a 44% gain. Since the stock opened at $24 at 11:19 am, for the many investors that couldn't get IPO shares, the gain was only 2%. Even more interesting, Snap is the first U.S. IPO to issue shares with no voting rights. This unprecedented feature has raised concerns among corporate governance leaders who fear that others will follow suit. The two co-founders hold a combined 88.5% of the company's total voting powers. The question becomes – how does the lack of voting rights affect investors' perception or interest in owning the stock given the governance issue.

Economy

This week offered an abundance of economic news with the headliner being Monday's durable goods report. New orders for durable goods rose 1.8% in January versus a consensus expected 1.6%. Excluding the volatile transportation sector, durable goods declined by 0.2%. Core capital goods (new orders) which excludes aircraft and defense declined by 0.4%. Core capital goods (shipments) also declined, dropping by 0.6%. There are a number of ways to examine the monthly durable goods report, but we feel the most important figures are core capital goods orders and shipments. On Tuesday, the second look at Q4 GDP was released and once again the print was +1.9%. There were two primary changes. Real consumption growth was revised up to 3.0% from 2.5%, and nonresidential fixed investment was revised down to 1.3% from 2.4%. March 30th will be the final look at Q4 GDP. Personal income and consumption numbers were reported on Wednesday, and income increased by 0.4% in January and consumption increased by 0.2%. Over the past 12 months, personal income has advanced by 4.0% and personal consumption has advanced by 4.7%. Disposable personal income has increased by 4.0% over the past year.

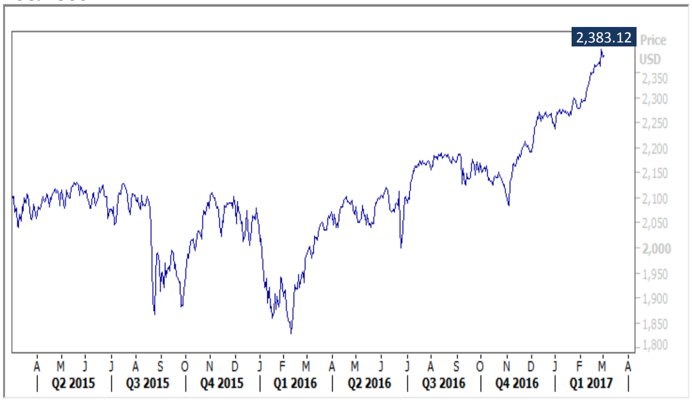
Fixed Income/Credit Market

Fixed income performance for the month of February was positive in all of the sectors that we follow. The top performers were preferred equity and long-duration U.S. Treasury bonds with February total returns of 2.09% and 1.80%, respectively. The poorest performing asset classes were short-term U.S. Treasuries and short-term high quality bonds, returning 0.05% and 0.19%, respectively. On the month, the 2-year versus the 10-year spread flattened approximately 12 basis points. The 2-year tenor and 10-year tenor closed out February at 1.26% and 2.39%, respectively. Credit spreads on investment grade bonds in the month of February compressed with the 5-year AA, A, and BBB – rated composites down 6.2, 7.8, and 8.1 basis points, respectively.

Equities

Equity prices as measured by the broad market indexes generally moved higher this week. Small cap and international indexes were the exception, but in both cases only declined marginally. The entire gain for the week was largely on Wednesday, as the DJIA rose 303 points driven by economic releases that indicated a solid global manufacturing environment and Tuesday night's speech by President Trump to the joint session of congress. Mr. Trump reiterated his major campaign promises of less regulation and tax reform. A number of Federal Reserve officials, including Chair Yellen, indicated the strong likelihood of a Fed funds rate increase in March, which allowed financials to turn in the strongest performance for the week (up 1.98%). Healthcare continued its relative recovery this week after having been a laggard most of last year. Energy also rebounded, as demand continues to improve. Consumer stocks underperformed as higher rates could cause the U.S. dollar to remain strong and negatively impact earnings of multi-national companies.

S&P 500



Our View

Once again, the market's focus has been drawn back to watching the Federal Reserve. Since the election the equity markets have rallied on expectations of fiscal stimulus, and the underlying fundamentals for both the economy and earnings have modestly improved. Market participants, despite the Fed rate increase in December, have been heavily focused on the Trump Administration and less on the Fed. This week, Multiple Federal Reserve officials have signaled in speeches that the Fed will be raising rates at their March meeting. A March increase opens the door to perhaps as many as three increases in 2017. Is the Fed feeling pressure to raise rates? Using CPI as the inflation gauge, the real yield on the 10-year Treasury bond is currently barely positive. The effective Fed funds rate is 0.63% and with inflation north of 2.0%, real rates are negative at the short end of the curve and have been for a long time. These low rates have driven equity valuations, as future equity cash flows are being discounted back at very low discount rates. Given today's low rate structure, the next few rate increases will not materially impact valuations. At some point, it will matter to the markets and they will be very focused on the Fed.

COMING UP NEXT WEEK		Est.
03/06 Factory Orders MM	(Jan)	1%
03/08 Productivity Revised	(Q4)	1.4%
03/10 Non-Farm Payrolls	(Feb)	186k
03/10 Unemployment Rate	(Feb)	4.7%
03/10 Average Earnings MM	(Feb)	0.3%

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